

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, JULY 19, 2005**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, July 19, 2005, commencing at 7:01 a.m.

A. ROLL CALL

Present: Council Members – Hitchcock, Johnson, Mounce, and Mayor Beckman

Absent: Council Member Hansen

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Blackston

B. TOPIC(S)

B-1 "Report, including a presentation by Bartle Wells, regarding possible water rate increases"

With the aid of an overhead presentation (filed), Reed Schmidt, Principal Consultant with Bartle Wells Associates, explained that its task was to analyze ways to finance PCE/TCE remediation. The cost of the program is estimated to be \$45.7 million, which includes capital, operating, legal expenses, and settlements due to the parties, less revenue due to the City. Costs include payback of \$12.2 million in past expenses, which includes \$1.9 million owed to the Sewer Utility. Bartle Wells was asked to look at Water and Sewer Utilities to determine which would be more appropriate to pay for remediation costs. It concluded that the Water Utility should be responsible for the payment because it would mean a lower rate impact to Lodi citizens and there is a direct benefit to water users from remediation of PCE/TCE. He noted that the Sewer Utility has existing debt that requires the City to maintain rates to meet coverage requirements and other covenants. Three alternatives were considered: 1) pure funding based on pay-as-you-go financing, 2) modified smooth method using cash reserves plus rate increases, and 3) long-term financing plus rate increases, as well as cash reserves. Long-term borrowing had no advantages because it is more expensive, due to the payment of interest over time and the cost of issuing. He noted that rates need to be predictable and produce revenue stability for the Water Utility. Bartle Wells recommends the modified pay-as-you-go approach, in which there would be no borrowing and cash from settlements and rate increases would be used. All accrued expenses would be repaid. Rates for a three-bedroom home would increase by \$3.50 a month beginning January 1, 2006, an additional \$3.50 on July 1, 2006, and a third increase of \$3.50 on July 1, 2007, after which rates would increase according to the Consumer Price Index. Bartle Wells believes that the rate increases along with the City's cash reserve and settlement amounts would pay for the cost of PCE/TCE remediation. At tomorrow's regular meeting, Council will be asked for authorization to mail the Proposition 218 notice. Following the mailing, there is a 45-day period to receive responses, comments, and written protests. The public hearing on the proposed water rate increases will be scheduled for September 21.

Mayor Pro Tempore Hitchcock asked what was included in the \$12.2 million payback amount and why there would be less of an impact to ratepayers if the Water Fund were used instead of the Sewer Fund.

Public Works Director Prima replied that \$12.2 million is the net cost to the Water and Sewer Funds from the beginning of this matter and does not include any expenses from the General Fund.

Mr. Reed explained that the Sewer Fund has existing debt at this time and the City may be issuing additional debt from the Sewer Fund at a later time. To make the debt service payment, the City needs to not only have rates in place to pay the principle interest, but also must have a coverage requirement, i.e. additional revenues over and above that. Bartle Wells analyses showed that if this cost were placed on the Sewer Utility the City would have trouble meeting its coverage requirements and it may preclude the City from issuing additional debt. It could also cause the sewer rates to increase to an amount that would be unacceptable by ratepayers.

Tatiana Olea, Financial Analyst for Bartle Wells Associates, explained that it was first determined what the rate would be for a three-bedroom water utility customer to absorb the cost. The rate for all other customers was then scaled proportionally to that rate and to the same ratios that the existing water utility rate structure uses. She stated that the impact is proportionately the same to all customers in the system.

In answer to Council inquiries regarding the \$45.7 million figure, City Attorney Schwabauer explained that, because three of the cases related to the contamination plumes have not yet settled, to break out the estimated costs would inform other parties what the City is anticipating to pay and what they could presume the "floor" to be for settlement purposes. That would harm the City's negotiating position in trying to reach a favorable resolution in negotiation. The \$45.7 million amount is staff's and the environmental firm Treadwell & Rollo's best estimate of the ultimate cost of PCE/TCE remediation. He acknowledged that the total amount could, eventually, increase or decrease.

Ms. Olea stated that the \$45.7 million figure is a cost estimate that spans 30 years. She explained that, in ratemaking, the first three years can be predicted reasonably well. The following three years is a "pretty good guess" and after that period it becomes very speculative. Ms. Olea expressed confidence that, for the first five years, Bartle Wells is confident that the proposed rates will recover the cost the City needs to conduct the PCE/TCE cleanup. To account for a margin of error, the City will be collecting \$498,000 in excess of what it needs for the projected period. In the outer years, the Consumer Price Index increase will be needed to keep up with expenses. She suggested that the rates be reevaluated in three to five years to make sure the rate is supporting the City's needs. It is predicted that in year 2011 or 2012, operations and maintenance costs will stabilize and begin to decrease. She assured Council that there would be a separate fund within the water utility to track these rate revenues and expenditures.

Mr. King explained that staff could not recommend that the rates sunset at a certain time because there are too many variables and unknowns.

Council Member Johnson noted that the information Council received states that an allowance had been made for the cost of retrofitting water meters.

Mr. Prima explained that the rate model Bartle Wells developed considered the entire water fund. When considering paying back the water fund for past expenses, a significant amount of money was for capital projects that Public Works had planned to do. Projecting forward in the water rate model for the operating and capital portions, known expenses and projections including cost of living increases, and operations increasing the cost of capital projects, were included in the water rate model. Included was \$500,000 a year for installing meters over the course of 20 years.

Mr. Schwabauer further explained that money was taken from the water meter program and the proposed water rate increase includes paying back the money that was taken out of the account.

Mayor Beckman suggested that, for clarity, the explanation should merely state that the capital outlay accounts are being replenished the amount that was borrowed from them.

Ms. Olea confirmed that no other utility projected expenses went into this portion of the rate making. Of the \$12.2 million, \$1.9 million will go to the sewer fund and \$1.2 million is marked for the water capital outlay fund. The balance is all to pay back the water fund.

Finance Director Krueger confirmed that all past costs were accounted for in one fund. Approximately \$1.9 million was paid out of the sewer fund in 2004-05 for settlement costs, attorney expenses, etc., and this will be repaid over time. \$1.2 million was paid in 1995-96 out of the water capital fund, which is also programmed to be repaid.

In reference to the City's Low-Income Discount Program, Ms. Olea confirmed that it had been factored into the water rate increase proposal.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 7:56 a.m.

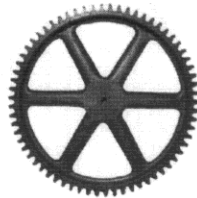
ATTEST:

Susan J. Blackston
City Clerk

filed 7-19-05

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**City of Lodi
Council Shirtsleeves Session
Funding of PCE/TCE Groundwater
Remediation**



July 19, 2005

**Reed V. Schmidt, Principal Consultant
Tatiana Olea, Financial Analyst**

**BARTLE WELLS ASSOCIATES
1889 Alcatraz Avenue
Berkeley CA 94703
(510) 653-3399
www.bartlewells.com**



Names:

City Manager – Blair King

Finance Director – Jim Krueger

Public Works/Utilities Director – Richard Prima

City Attorney – Steve Schwabauer

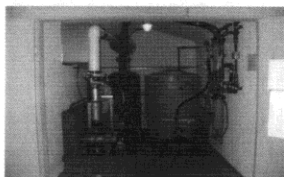
Utilities Management Analyst – Rebecca Areida



What is PCE/TCE Remediation

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- PCE/TCE -- chemical solvents used by drycleaners and other industries to remove grease, paint and other substances. It is also an ingredient in adhesives, typewriter correction fluids, and spot removers.
- PCE/TCE remediation is the removal of these chemicals from the soil and groundwater supply through additional treatment



First finding in 1997

Found through testing the wells

Central Plume is the name for the largest affected area and it is in the downtown area



All-In Costs of PCE/TCE

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- Net cost of implementing remediation plan is estimated to be \$45.7 million and includes capital, operating, legal expenses, and settlements due to other parties less settlement revenues due to the City
- Above costs include pay back of past expenses (total \$12.2 million, which includes \$1.9 million of expenses owed to the sewer utility)



All these costs are for the Central Plume clean-up order

Break down of \$45.7

Projected Cost (Current Dollars)	Amount
Central	25,000,000
Southern	3,200,000
Busy Bee	500,000
Northern	10,000,000
South Central Western	3,000,000
Legal Fees	4,000,000
Oversight Costs	3,000,000
Fireman's Fund	3,000,000
Cash Deficit (1)	12,214,000
Consultant Litigation	1,000,000
Paid Lehman	<u>6,000,000</u>
Total cost	70,914,000
Anticipated settlements due to the City	25,125,000
Cost minus settlements due to City	45,789,000

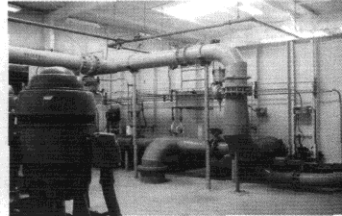
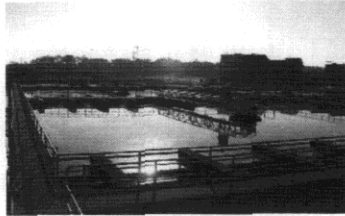
\$12.2 million owed includes the \$1.9 to sewer ; there's is also \$1.2 of water infrastructure \$ (fund 00181) which is a very big sticking point-

When they talk about infrastructure they are really talking about the last rate increase which Council then asked to see separate on the bill; this is what the article referred to



How to Pay for PCE/TCE Remediation⁴ - Which Utility Should Pay?

- Evaluated water and sewer utilities
- Concluded to use water utility
- Water utility results in lower rate impacts than sewer



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Sewer has \$32 mil between the 2003 and 2004 issue plus about \$9 million from a 1991 COP; they also have some refunding issues (the 1991 has a high rate but a 15 yr feature, the rate is in the 6% range)

With the cost of PCE/TCE the WW ratios fall to (.49)



Reasons Water Utility Should Pay PCE/TCE Remediation

5

■ Nexus

- Direct benefit to water users from remediation of PCE/TCE
- Remedial action order finds source of contamination could also have been direct release to subsurface

■ Fiscal position of utilities

- Sewer system has existing debt
- Existing debt requires meeting coverage and other covenants which requires higher rates





Rate Increase Alternatives

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- Three rate alternatives were considered:
 - Pure rate funding on a pay-as-you-go annual basis
 - Modified smooth pay-as-you-go, use of cash and reserve from rate increases
 - Long-term financing, use of cash from rate increases plus revenue bonds
- BWA recommends the modified pay-as-you-go alternative
 - Minimizes long-term costs
 - Minimizes annual rate increases
 - Provides predictable rates



With modified pay as you go they can look at reducing the rate at year 4 but we still don't know the cost of cleaning up the other plumes



Recommended Alternative

7

- Use cash from settlements and rate increases (no borrowing)
- Re-pay accrued expenses
- Increases are phased-in
- Rates for 3-bedroom home
 - January 1, 2006 add \$3.50 (\$30.33/month)
 - July 1, 2006 add \$3.50 (\$33.83/month)
 - July 1, 2007 add \$3.50 (\$37.33/month)
 - Adjustment each July 1 to account for changes in Consumer Price Index





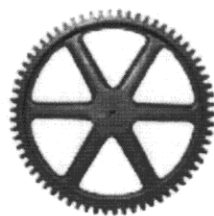
Next Steps

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- Authorize mailing of Prop. 218 notice
- 45-day waiting period (begins on date of mailing)
- Public hearing on proposed rates on September 21, 2005
- Implementation of first rate change on January 1, 2006



Discussion & Questions





Rate Survey

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Lodi Water Rate Survey

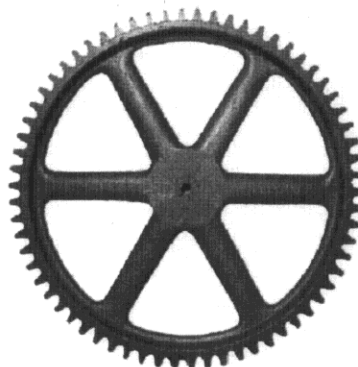
Agency	Est. Monthly Bill
	Current
City of Lathrop	\$48.92
City of Escalon	33.18
City of Manteca	31.35
City of Stockton	29.90
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City of Lodi	26.83
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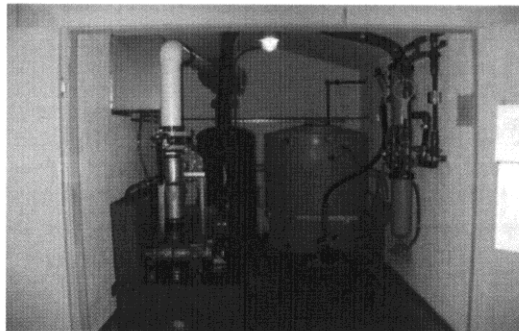
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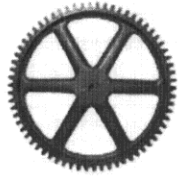




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All-In Costs of PCE/TCE

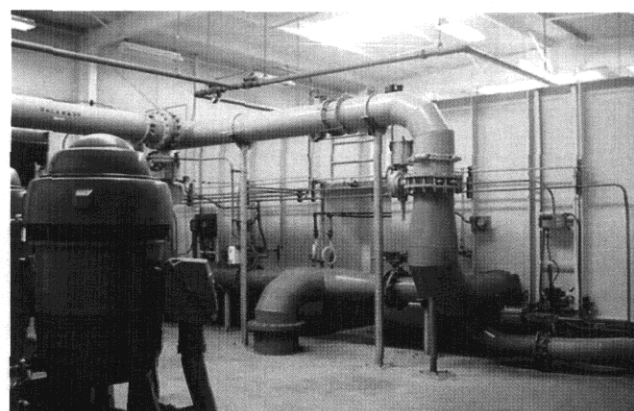
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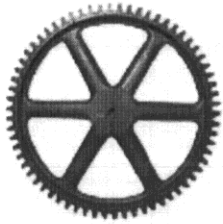


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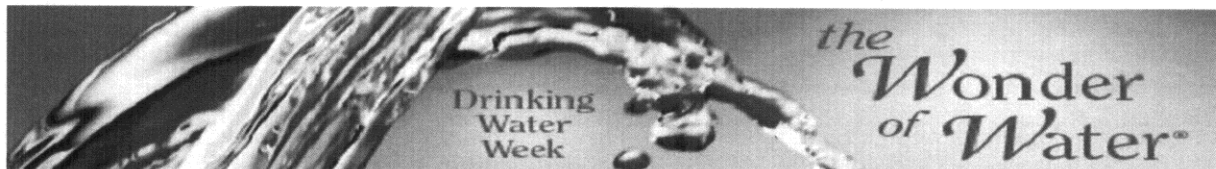
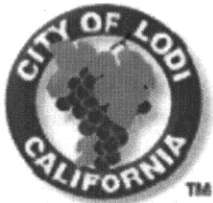
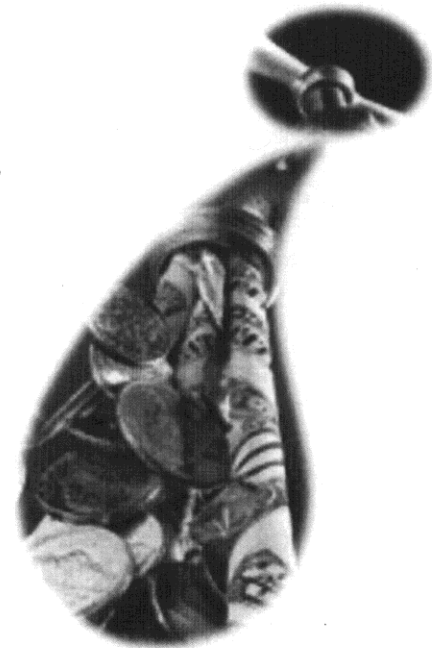
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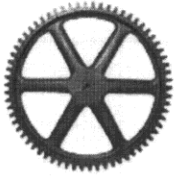


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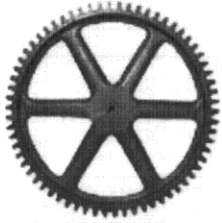




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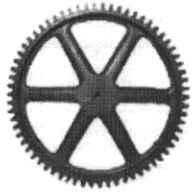




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